ISSUE DATE: June 7, 1995

DOCKET NO. G-008/M-94-1162

ORDER ACCEPTING DSM FILING

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of a Request by Minnegasco for Approval of the Company's 1992-93 Demand-Side Management Financial Incentive Lost Margin and Bonus Recovery

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PROCEDURAL HISTORY

In Orders[1] dated May 3, 1993, and November 24, 1993, the Commission approved a two-year demand-side management (DSM) financial incentive pilot program for Minnegasco and established the program's basic guidelines. Among other things, the Commission required Minnegasco to file a DSM financial incentive report each November 1. The report was to include a calculation of lost margins and bonus amounts for the prior conservation improvement program (CIP) year.

On December 6, 1994, the Commission granted Minnegasco its request for a 45-day extension to the DSM filing deadline.

On December 15, 1994, Minnegasco filed its annual DSM financial incentive report.

On February 15, 1995, the Department of Public Service (the Department) filed comments on the report.

On May 4, 1995, the matter came before the Commission for consideration.

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[1] In the Matter of the Application of Minnegasco, a Division of Arkla, Inc., for Authority to Increase Its Rates for Natural Gas Service in Minnesota, Docket No. G-008/GR-92-400, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (May 3, 1993) and ORDER ACCEPTING COMPLIANCE FILINGS AND REQUIRING ADDITIONAL FILINGS (November 24, 1993).

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND AND INTRODUCTION

Minnegasco calculated a lost margin amount of $256,165 and a bonus incentive amount of $43,801 for the 1992-93 CIP year.

Minnegasco's annual DSM filing contained the following four sections: (1) a discussion of the methodology used to determine performance for the calculation of financial incentives and a summary of the lost margins and bonuses earned; (2) a description of the Company's proposed energy savings goals for the 1993-94 CIP year; (3) recommendations to improve the administration of the DSM financial incentive program; and (4) an evaluation of the DSM financial incentive program.

The Commission will discuss the main points of the four sections in turn.

II. METHODOLOGY USED TO DETERMINE PERFORMANCE

In its Orders establishing Minnegasco's DSM reporting requirements, the Commission ordered the Company to measure lost margins by comparing the consumption levels of a group of similarly situated ratepayers. The Commission stated that CIP participants should be excluded from the comparison group.

In its December 15, 1994, DSM filing, Minnegasco stated that the calculation methodology established by the Commission "...is, in practice, not manageable, excessively burdensome and does not produce results that are logical..." Minnegasco proposed substituting its most recent evaluation results and engineering estimates for the actual pre- and post- CIP participation data required by the Commission.

While the Department recognized the difficulty in complying with the Commission's methodology, it did not agree with the Company's proposal to substitute its current evaluation results and engineering estimates. The Department did not object to the Company's calculation results, however, because Minnegasco had actually used estimates of average energy use, energy savings, and participation from the Department-approved 1992-1994 biennial CIP filing. These figures had received an in-depth review by the Company and the Department engineering staff at the time of Department CIP review.

The Commission agrees with the Company that the energy savings estimates that result from the Company's comparison with a non-participant group are not as useful as originally anticipated. The Commission finds that it was appropriate for Minnegasco to substitute in its DSM filing the impact evaluations and engineering estimates approved by the Department in the Company's

1992-94 biennial CIP filing.

The Commission accepts the Company's proposal to book $299,966 to its CIP tracker for lost margins and bonus accounts for the CIP account.

III. 1993-1994 ENERGY SAVINGS GOALS

Minnegasco proposed changes in calculations of both its energy savings goals and its energy savings estimates for the 1993-94 DSM reporting period.

The Department objected to the Company's use of energy savings calculations other than those approved by the Department in the biennial CIP process. The Department stated that the Company's data would be difficult to verify and unreliable. The Department also argued that energy savings goals should not be changed outside of the CIP review process. Energy savings goals should be set and applied prospectively; the Company should not be permitted to revise a goal that it is attempting to meet.

The Commission agrees with the Department that the Company should use the estimates of energy savings per participant and the estimates of energy savings goals developed through review in the Department's biennial CIP process. These figures have already been subject to thorough analysis and verification; a separate review of energy savings estimates would not be useful. The Company is free to propose changes to the estimates of energy savings goals in its next biennial CIP filing.

IV. MINNEGASCO'S RECOMMENDATIONS TO IMPROVE THE DSM FINANCIAL INCENTIVE PROGRAM

Having prepared and submitted one set of DSM financial incentive filings, Minnegasco proposed three changes which it felt would improve the DSM financial incentive program.

1. Minnegasco proposed eliminating non-participant comparison groups from the Company's analysis of energy savings. The Department noted the difficulties the Company encountered in attempting to measure lost margins by comparing the consumption levels of a group of non-CIP participants. The Department recommended that the Commission accept this proposal.

The Commission agrees with the Company and the Department that comparisons with non-participant groups have proven burdensome and confusing. The Commission will allow the Company to eliminate this element from future energy savings calculations.

2. Minnegasco proposed using engineering estimates and average savings per customer as determined in the most recent impact evaluations in place of actual performance measurements. The Department stated that the Company should be required to use actual performance levels for financial incentive purposes.

The Commission agrees with the Department that the determination of DSM results should be based on actual participation levels and energy savings from specific Minnegasco projects. Where this is impractical, the Company should use the actual participation levels in combination with Department-approved energy savings goals.

3. Minnegasco suggested that lost margin and bonus calculations should be based on actual participation compared to the goal set in the Company's approved CIP. The Department noted that the CIP financial incentive calculations inherently calculate the financial incentives based on participation levels. For this reason, the Department stated, this suggestion is moot and no action need be taken upon it.

The Commission agrees with the Department's analysis and will not act upon this Company recommendation.

ORDER

1. The Commission accepts Minnegasco's calculation of a lost margin amount of $256,165 and a bonus incentive amount of $43,801 for the 1992-93 CIP year.

2. In its next annual DSM filing, Minnegasco may eliminate non-participant comparison groups from its analysis of energy savings.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)